

What is the BPW Cash Reserve Policy?

Issue: BPW Cash Reserve Policy. The Lewes BPW operates as a nonprofit business entity and as such must approach the management of meeting its obligations to its customers and the City of Lewes in a businesslike fashion.

BACKGROUND: The Lewes BPW operates under a cash revenue policy model to support the needs of the utility systems it manages for its customers. In order to meet its mission of providing its current and future customers with utility and other value added services in a safe, reliable and economical manner consistent with sustainable growth, community involvement and environmental stewardship, the BPW maintains a cash reserve policy to address the needs of the business. The four BPW lines of business include: (1) water purification and water distribution, (2) electric purchases and distribution, (3) wastewater (sewage) treatment and disposition within an environmentally accepted methods, and (4) stormwater management and drainage. The Board considered various options to prepare for emergency needs that included a line of credit as well as governmental and private funding options. The Board has established a reserve fund to pay for emergency needs in a way that will not increase debt. **The ability of the BPW to maintain appropriate levels of cash in reserve allows it to draw down on the reserves should an unexpected event occur rather than issue additional debt and substantially increase rates to its customers.**

The BPW maintains cash reserves in five major categories:

- **Operations**
- **Emergency Reserve**
 - Funds sufficient to address any emergency situation and restore services
- **Debt Repayment**
 - Repayment of bonds and loans
 - Escrow of bond proceeds to repay debt
- **Capital Projects**
 - Funds for 5-year capital plan
- **Customer Deposits/Impact Fees/Self Insurance**

Operations: The BPW must have sufficient funds to meet payroll, pay rent, pay its bills to vendors who provide commodities and services, meet its “in lieu of franchise fee” to the City of Lewes, and to smooth out the volatility of power costs to its customers. (As of May 31, 2012, there was \$1,537,638 in the Operations account.)

Emergency Reserve: The BPW must also factor disaster recovery costs into its cash reserve planning. While the US Federal Government and State of Delaware might play a role in supplying some financial support following a disaster, their contributions will never cover the full replacement cost of the damaged utility infrastructure, nor are disaster funds likely to arrive quickly enough for us to restore essential utility service without delay. The BPW must plan for all types of emergencies. The BPW cash reserve targets are based upon risk assessment factors and capital needs. As a coastal city, the City of Lewes has emergency factors to consider that include hurricanes, persistent Nor’easters, tornadoes and earthquakes as well as coastal flooding. The current minimum reserve held by the BPW as of May 31, 2012 is \$7,614,116.

Debt Repayment:

Since 2005, the BPW has borrowed \$29,221,000 in general obligation bonds to pay for improved electric, water and wastewater system facilities. The BPW pays \$1,355,708 in annual debt payments that result in a monthly payment set-aside of \$112,976 on a debt balance of \$18,112,407 as of March 31, 2011. In accordance with Government Accounting Standards Board (GASB) the BPW must meet its “debt coverage ratio” to cover reductions on its long term debt and to sustain its high credit rating. This Debt Service also includes an annual payment against the debt principal of \$759,833, for a total of \$1,355,708 including principal and interest.

In a separate but related action, the BPW recently established an escrow account of monies originally borrowed using the general obligation bonds for capital projects. These funds were not needed within the five year limit of the bond issue therefore these funds were set aside in 2011 in an escrow account for repayment of the bonds. They are restricted funds and may not be used for any other purpose.

Capital Projects: The target level for cash reserve for capital projects is predicated on the age of the assets in the utility infrastructure. The BPW has equipment of varying ages from water and sewer lines that are over 70 years old to more recent city improvements. As of May 31, 2012, the current five year plan (2012/13-2016/17) includes \$6,613,401 in capital projects. These monies are set aside monthly and identified in the “depreciation and amortization” line of the BPW financial statements. In Fiscal Year 2012/2013, the BPW expects to commit \$3,108,178 for capital projects.

Customer Deposits/Impact Fees/Self Insurance: The BPW also maintains a separate restricted account of the monies for Customer Deposits/Impact Fees/Self Insurance. (As of 31 May 2012 there was \$1,622,516 in this account.) Impact fees are collected from new customers and can only be used to fund capital projects or retire debt from capital projects. Customer deposits and impact fees are restricted funds and may not be used for any other purpose. Self-insurance funds are cash reserves set aside to cover losses that would otherwise require us to pay more in insurance premiums, and as such are considered a restricted fund.

QUESTIONS: If you have further questions about our cash reserve policy, please contact the BPW General Manager, Darrin Gordon: 302-645-6228; or go to: www.lewesbpw.delaware.gov